

## SUBCOMMITTEE NO. 2

## Agenda

Byron Sher, Chair  
Sheila Kuehl  
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Thursday, May 16, 2002  
Upon adjournment of Floor session  
Room 4203

### PART 1

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## 3360    **Energy Resources Conservation & Development Commission**

The commission, commonly referred to as the California Energy Commission (CEC), is responsible for:

- Siting power plants,
- Conducting energy-related research and development,
- Forecasting energy supply and demand, and
- Implementing conservation strategies.

### **Consent Item**

***Geothermal Grants.*** According to the commission, geothermal projects are subject to a tax on output. The revenues from the tax are allocated to federal, state and local governments. The CEC uses revenue allocated to the state to make grants to geothermal projects. Because geothermal tax revenues are likely to be lower than anticipated in January, the department expects to make fewer grants.

The May Revision proposes to reflect the revenue shortfall by reducing funding from the Local Government Geothermal Resources Development Account by \$566,000.

***Staff recommend*** adoption of the May Revision.

## 8660 Public Utilities Commission

The commission regulates privately owned utilities, such as gas, electric, telephone and railroad interests. It regulates some passenger and household goods carriers. The commission's primary objective is ensure adequate facilities and services for the public at equitable and reasonable rates.

The Analyst notes that the May Revision contains several proposals to spend additional money from the PUC's Utilities Reimbursement Account (PUCURA). Taken together, the May Revision proposals reduce the account's balance to \$1.5 million. The Analyst believes this reserve amount is insufficient to cover costs which are likely to be billed to the account during 2002-03. For example, though the May Revision does not identify a plan for transitioning the Department of Water Resources out of the electricity-purchasing business, the Administration intends to developed a plan by August. The transition is likely to be financed with PUCURA funds.

### Consent Items

*Staff recommend* adoption of the following May Revision proposals:

1. **Legal Counsel for the PG&E Bankruptcy.** The commission expects to need legal counsel through May, 2003 for the PG&E bankruptcy case. It expects to retain counsel at monthly rate of \$400,000. The \$4 million cost would be financed with PUCURA revenues.
2. **Lease Revenue.** The May Revision proposes adjusting the commission's lease revenue payments. The action would reduce the appropriations from various special funds by \$2.4 million and increase reimbursements by a similar amount. This action reflects a recalculation of the commission's debt service.

### Other May Revision and Budget Issues

1. **Utility Audits.** The May Revision proposes the addition of 11 financial examiner positions to conduct various types of audits. The auditors would cost \$871,000 and be funded with PUCURA revenues.

Specifically, the positions would be assigned to the following tasks:

- *General Rate Cases and Ratemaking Audits.* The Public Utilities Code requires the commission to audit any corporation providing electricity, telephone and water to at least 1000 customers. Each corporation must be audited once in a three year period. The revision proposes adding five auditors.
- *Affiliate Transactions/Special Investigations.* The commission audits PG&E, Roseville Telephone and Verizon, Sempra and Southern California Edison. It reviews the financial transactions between these utilities and their holding companies. These audits can require up to five full-time positions during the course of the audit. It is not clear how long the audits take. The Revision proposes adding two positions to conduct these reviews.

- *Public Purpose Program and User Fees.* The commission collects \$1 billion in various utility taxes. These taxes are used to support various public-purpose services, such as the Universal Telephone Lifeline service. A previous audit of the universal lifeline program took two auditors three months to complete. The commission proposes hiring two positions.
- *Telephone Number Conversion.* The commission evaluates the claims for additional telephone numbers. It assesses the quantity of telephone numbers available statewide, validates the inventory of existing numbers, reviews the numbers reserved and awaiting reuse. The commission conducted an “audit” of the 310 Area Code in 2000. The commission requests one audit position.
- *Small Water Company.* The commission regulates 150 small water companies. The commission requests an additional auditor to “assure accounting and financial records are in order so that small companies can secure funding to improve their water systems and to assure use and account for public funds appropriately.”

Undoubtedly, there is a need for additional audit staff. Unfortunately, the material provided by the commission provides little justification for the proposed positions. For example:

- *Do the Additional Auditors Supplement or Supplant Existing Audit Staff?* The commission has conducted audits in the past. Some of the audits were contracted out. Some were done by commission staff. The commission’s budget change proposal (BCP) does not account for how the existing workload is currently handled. Is there a backlog of audits?

The BCP does not detail the deployment of the new positions: Will the new positions conduct additional audits? If so, what kinds of new audits will be done?

- *The BCP Has No Workload Standards or Performance Measures for Determining the Budgetary Need.* The BCP does not identify any measures for evaluating the performance of the current auditors or the new ones. How will the Legislature know if it has too few or too many auditors on these programs?

The commission should measure the performance of existing auditors and identify the need for additional audits. Are there financial or programmatic consequences for failing to conduct more or different audits?

- *The BCP Fails To Identify an Audit Standard for Desired Coverage.* Other state audit programs are budgeted to a coverage standard. For example, the tax agencies are given additional auditors until the last auditor generates a 5-to-1 return on its costs. What kind of coverage will the state be securing if the Legislature funds the positions requested? How often are utilities audited now? How often will they be audited if the positions are approved?

The Legislative Analyst advises that “[w]hile the audit activities are important, it is not clear that the additional staff are needed to address priority audits in the budget year. Given the relatively small reserve left in the PUCRA, the Legislature could postpone funding additional auditors ...”

*Staff recommend* that the subcommittee deny the audit positions, pending receipt of data that justify the positions. When the commission provides the additional workload data, the positions can be added at the full committee hearing on May 23.

2. ***Costs for Setting the Rate.*** AB 1x authorized the Department of Water Resources (DWR) to buy electricity for resale. The department may purchase electricity through December 31, 2002.

The procurement costs are to be financed by a charge on retail electricity customers. The PUC is to set the rate at least once a year, based on information provided by DWR. The commission must set the rate no later than 90 after the PUC submits the information.

DWR filed information in May 2001 and requested an adjustment six months later, on November 5, 2001.

To accommodate the workload associated with the rate setting process, the commission requests ten new positions, including two administrative law judges, three counsels and five analysts. The positions will cost \$950,000 (PUCURA). The commission expects DWR to submit as many as three requests per year for adjustments to the annual rate.

***Analysis.*** It is difficult to assess the workload associated with the rate setting process. For example, it is not clear:

- *Whether DWR will request any rate adjustments in the budget year.* Because DWR will not be purchasing electricity after December 31, 2002, the commission is not likely to make frequent rate adjustments in the budget year. If DWR purchases no more electricity would it have to request any more rate adjustments? Under what circumstances will DWR request adjustments to the rate?
- *Why current staff cannot accommodate the workload.* The commission says it needs additional staff to meet the workload. However, it conducted rate proceedings in the last two budgets with its existing staff. How did it accommodate the workload associated with the rate setting in the 2000-01 and 2001-02 budget? Can it make the same accommodations in the budget year?

*Staff recommend* rejecting the proposal, pending a resolution of the issues outlined above. If the commission can demonstrate a budget-year need, the positions can be added at the full committee hearing on May 23.

3. ***Power Plant Performance Reviews--Implementation of AB 28xx and SB 39xx.*** This legislation required the commission to implement an integrated program for scheduling plant outage and maintenance. To do the inspections and investigations, the commission estimates it will need 19.5 positions, at a cost of about \$2.1 million from the PUCURA.

*The Analyst raises questions* about the size and scope of this proposal. It recommends the subcommittee adopt supplemental report language requiring the commission provide the Legislature a performance review for consideration during next year's budget process.

4. ***PUC Requests Additional Staff for Bond and Litigation Support.*** During the budget year, the commission staff expect to: (a) work with the State Treasurer and Department of Water Resources to structure a bond issue, (b) develop credibility with bond-rating agencies, and (c) advise the commission on decisions pertinent to the bond issue. To do these tasks successfully, the commission requests expert funding for bond counsel and technical advice, at a cost of \$1 million.

The commission also requests eight paralegal positions. The commission is engaged in a number of complex lawsuits and administrative proceedings on behalf of the state. Commission attorneys face the prospect of responding to multiple discovery projects and presenting their case before courts and administrative agencies on tight deadline. Paralegals could help with document analysis, document control, witness preparation and case management.

Currently, the commission has three paralegals supporting the work of 65 attorneys. The commission believes that the additional paralegals will help the staff make more effective use of their time.

***Staff recommend*** an augmentation for eight paralegal positions and bond counsel with funding from PUCURA.

## 8665 California Consumer Power and Conservation Financing Authority (CPA)

The California Power Authority (CPA), its powers and responsibilities are detailed in §§3300 through 3384 of the Public Utilities Code.

**Changes in the Budget.** At its May 8th hearing, the committee reduced the CPA's budget by \$1.1 million. The authority agreed to provide the subcommittee with information about how it would accommodate this cut. The information below, provided as information only, details the authority's revised proposal.

Under the authority's proposal, overall spending would be reduced by about \$1.1 million. About

\$550,000 would be cut from the personnel budget proposed in January. About \$450,000 would be cut from the contracts budget. The balance would be cut from furniture and auditing. The authority believes it can accommodate these reductions because it expects to finance fewer projects now than it did when it made developed its January proposal.

Table 1 compares the current year spending with the authority's January proposal and

Table 1  
Comparison of Budget Allocation  
2001-02, January 10 (Proposed), May 6 (Revised)  
California Power Authority  
(dollars in thousands)

|                                      | <u>2001-02</u><br>(partial year) | <u>2002-03</u>  |                 |                  |
|--------------------------------------|----------------------------------|-----------------|-----------------|------------------|
|                                      |                                  | Jan 10          | Revised         | Difference       |
| Personnel (see Table 2 for detail)   | \$ 1,095                         | \$ 2,812        | \$ 2,262        | -\$ 550          |
| Other Contracts and Consultants      | 2,708                            | 1,566           | 1,113           | -453             |
| Other Operating Expenses & Equipment |                                  |                 |                 |                  |
| <i>Training</i>                      | 8                                | 13              | 13              |                  |
| <i>Moving Costs</i>                  |                                  | 200             | 200             |                  |
| <i>Furniture &amp; PCs</i>           | 224                              | 141             | 101             | -40              |
| <i>Travel</i>                        | 20                               | 40              | 40              |                  |
| <i>Worker's Comp</i>                 | 307                              | 35              |                 | -35              |
| <i>Independent Auditors</i>          |                                  | 50              |                 | -50              |
| <i>Other Operating Expenses</i>      | 65                               | 370             | 389             | 19               |
| Staff Benefits                       | 98                               | 356             | 343             | -13              |
| Salary Savings                       | <u>-23</u>                       | <u>-83</u>      | <u>-58</u>      | <u>25</u>        |
| <b>Totals</b>                        | <b>\$ 4,502</b>                  | <b>\$ 5,498</b> | <b>\$ 4,403</b> | <b>- \$1,095</b> |

its revised proposal. (Please note that the spending for 2001-02 reflects only a partial year funding, as the authority did not begin operation until after the start of the fiscal year.)

Table 2 compares the 2001-02 personnel budget with the CPA's January and revised proposals. The January proposal had proposed adding staff to the CPA. The revised proposal essentially maintains the essentially the existing levels.

Please note that Table 2 reflects an "annualized" cost for the current year. To "annualize" the costs, committee staff re-estimated the partial year costs from the current year to reflect a full year's costs.

Table 2

## Comparison of Personnel Expenditures

Current Year, Budget (Jan 10 Proposal and Revised)

By Position (dollars in thousands)

| By Position (dollars in thousands)           | 2001-02         |                 | 2002-03 |  |
|--|-----------------|-----------------|---------|--|
|  | Annualized Cost | Jan 10 Proposal | Revised |  |
| <u>Board</u>                                 |                 |                 |         |  |
| Board Chair                                  | \$ 220          | \$ 220          | \$ 220  |  |
| Board Members                                | 9               | 9               | 9       |  |
| Special Assistant                            | 42              | 48              | 48      |  |
| <u>Executive</u>                             |                 |                 |         |  |
| CEO  | 213             | 200             | 200     |  |
| Executive Assistant                          | 54              | 43              |         |  |
| <u>Chief Deputy Director</u>                 |                 |                 |         |  |
| Chief Deputy Director                        | 126             | 115             |         |  |
| Special Assistant                            | 53              | 37              |         |  |
| Assistant Director                           |                 | 86              | 60      |  |
| Staff Services Manager                       |                 | 63              | 48      |  |
| Staff Services Manager                       |                 |                 | 48      |  |
| Office Manager                               |                 | 34              | 34      |  |
| <u>General Counsel</u>                       |                 |                 |         |  |
| General Counsel                              | 175             | 165             | 165     |  |
| Staff Counsel                                | 120             | 120             | 120     |  |
| Staff Counsel                                |                 | 96              |         |  |
| Legal Support Supervisor                     |                 | 50              |         |  |
| Legal Typist                                 |                 | 38              | 38      |  |
| <u>Communications</u>                        |                 |                 |         |  |
| Deputy Director                              | 130             | 105             | 105     |  |
| Assistant Director                           | 102             | 88              | 88      |  |
| Office Tech                                  |                 | 34              |         |  |
| <u>Energy Facilities Development</u>         |                 |                 |         |  |
| Deputy Director                              | 282             | 115             | 115     |  |
| Associate Planner                            |                 | 171             | 57      |  |
| Associate Planner                            |                 |                 | 48      |  |
| Sr Electrical Engineer                       | 52              | 74              | 74      |  |
| Planner                                      |                 | 62              | 62      |  |
| <u>Conservation &amp; Distributed Energy</u> |                 |                 |         |  |
| Deputy Director                              | 150             | 160             | 145     |  |
| Assistant Director                           | 121             | 143             | 105     |  |
| Specialist III                               | 60              | 75              | 75      |  |
| Specialist III                               | 60              | 75              | 75      |  |
| Specialist I                                 |                 | 62              |         |  |
| Executive Assistant                          | 36              | 43              | 43      |  |
| <u>Financing &amp; Investment</u>            |                 |                 |         |  |
| CFO  | 180             | 165             | 165     |  |
| Asst Chief Financial Officer                 |                 | 81              | 81      |  |
| Office Tech                                  |                 | 34              | 34      |  |
| Totals                                       | \$ 2,185        | \$ 2,811        | 2,262   |  |

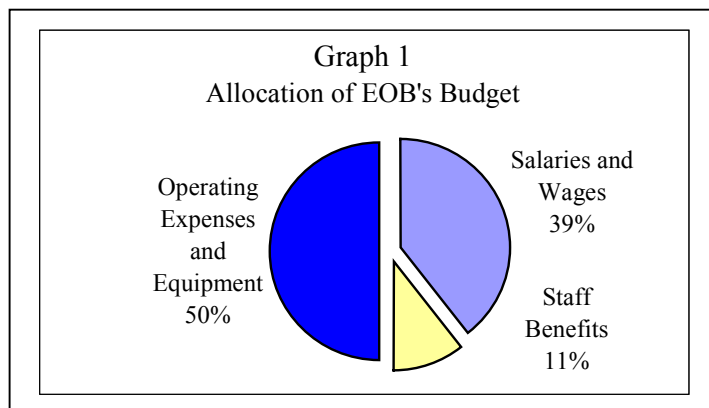


## 8770 Electricity Oversight Board (EOB)

The budget proposes appropriations of \$4.2 million for the Electricity Oversight Board (EOB), about \$260,000 less than the current year.

**Proposed Spending.** The board proposes to spend \$1.6 million (39 percent) of its budget on salaries and wages and \$430,000 (11 percent) on benefits. The balance, \$2.2 million (50 percent), is proposed for Operating Expenses and Equipment (OE&E). Please see Graph 1.

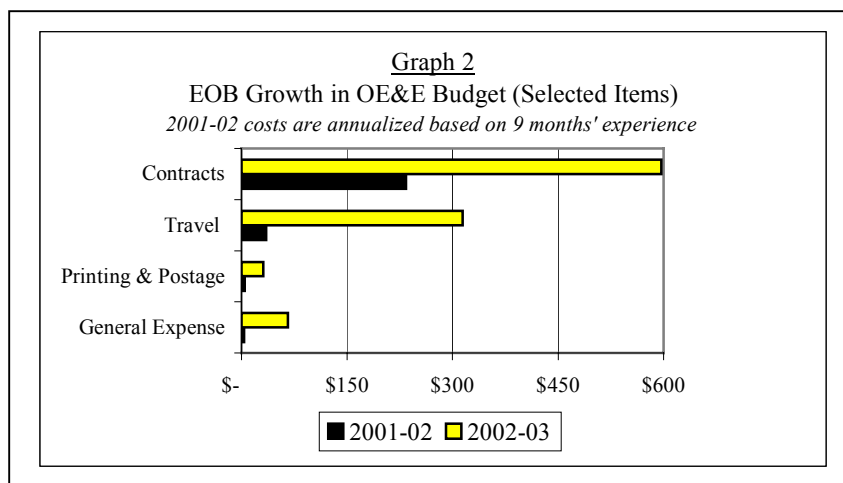
**Funding Sources.** Most of the board is funded from special funds, as detailed in Table 1 below. The budget proposes a General Fund appropriation of \$730,00 for the implementation of a new program authorized by SB 28x regarding generation maintenance.



**Budget Issue-- Operating Expenses and Equipment (OE&E) Budget Is Overbudgeted.** At its last hearing, the committee requested the board report on its OE&E budget.

The board reported that it has spent about \$540,000 on OE&E for the first nine months of the current year. Annualizing this spending, committee staff estimate the total OE&E

expenditures for 2001-02 will total about \$720,000. For the budget year, the department proposes to spend nearly \$1.4 million (representing a 92 percent increase in expenditures).



The increase in expenditures would be primarily in contracts, with expenditures rising from \$234,000 to nearly \$600,000. Other growing areas include postage, printing, travel and "general expenses." Graph 2 summarizes the changes. In total, the board proposes to increase OE&E expenditures for these areas by over three-quarters of a million dollars.

**Staff recommend** reducing the OE&E budget by \$777,000. This reduction will provide the board with the same funding as it is expected to spend in the current year for general expenses, travel, contracts and postage and printing.